

NATURAL GAS SUPPLY ASSOCIATION



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Royalty Management Program
Minerals Management Service
Building 85
Denver Federal Center
Lakewood, Colorado 80215

October 30, 1996

Dear Mr. Guzy:

On behalf of natural gas producers, the Natural Gas Supply Association (NGSA) would like to respond to your proposed regulations governing royalty valuation of gas produced from federal and Indian leases (30 CFR Part 206).

NGSA members are deeply troubled by the effect this proposal would have in changing the point of valuation from the wellhead to a point downstream. While we understand our obligation to place production in a marketable condition, the marketing services that MMS now proposes to include in the royalty valuation go far beyond the current law and regulation. Marketing costs are not production costs.

We agree with MMS that the Federal Energy Regulatory Commission (FERC) Order No. 636 has changed the natural gas marketplace. It has not, however, changed the definition of a marketable condition for gas, which statutes, court decisions and current regulations have addressed. There is no precedent for such an extension, and NGSA strongly opposes the adoption of such a rule.

The rule also adds very heavy administrative expenses for producers, who would be required to track gas molecules to the burnertip and permit government to share in the enhanced downstream values without paying its share of downstream costs. And given the complexities of today's marketplace, we believe that the required tracking would in most cases be impossible.

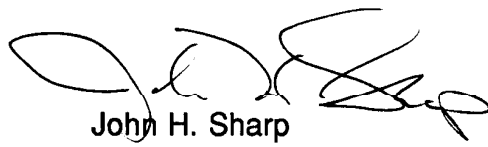
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NGSA particularly objects to the MMS's planned retroactive application of this new rule. This fundamentally changes the lessee's obligation under the lease and is a radical departure from past practices and standards. The MMS cannot lawfully apply retroactively these radical new standards.

In conclusion, we strongly urge MMS to withdraw this rule. If changes are needed in royalty valuation as a result of Order 636, we believe they can be fully addressed in a negotiated rulemaking with industry that can help all parties assess the options and the costs and come to an equitable agreement.

Sincerely,



John H. Sharp
Director, Congressional Affairs
& Counsel

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